DIA MET MINERALS LTD.

ANNUAL REPORT 1996-1997

CORPORATE PROFILE

Dia Met Minerals Ltd. (Dia Met) is a mineral exploration and development company engaged principally in the exploration for and development of diamond deposits. The Company was founded in 1983 by its chairman, Charles E. Fipke, to finance diamond exploration activities in the Northwest Territories. Dia Met conducts exploration activities in Canada's Northwest Territories, British Columbia, the United States, Finland and Eastern Europe.

The Company's most significant asset is a 29% interest in certain mineral claims located in the Lac de Gras area in the Northwest Territories (the "NWT Diamonds Project") on which significant diamond-bearing kimberlite pipes have been discovered. A joint venture to explore these claims was created between BHP and the Blackwater Group (which is a joint venture between Dia Met, Charles Fipke and Stewart Blusson) pursuant to a joint venture agreement dated August 31, 1990 as amended on October 16, 1991 ("JVA"). The JVA governs the development and operation of the first mine, with anticipated commercial production in the second half of 1998, and the development and operation of any additional mines.

Dia Met continues to investigate new exploration opportunities identified by its management, and in addition to ongoing exploration and development associated with the NWT Diamonds Project, the Company is currently carrying out an extensive program of exploration, including heavy mineral sampling and airborne and ground geophysics on kimberlite targets in Finland.

Contents

On the cover

Two Panda diamonds on kimberlite with chrome diopside (green) crystal

Left

Koala diamonds recovered from bulk sample drilling

Report
to Shareholders & Employees

On behalf of the Board of Directors, I am pleased to present the Annual Report together with the financial statements for the fiscal year ending January 31, 1997.

Our primary area of focus has continued to be the NWT Diamonds Project. This project is proceeding at a very encouraging pace. Construction of the permanent accommodation complex commenced in late 1996, and the final permitting and approvals for the mine were granted early this year. A complete exploration and development review is to be found on page 4 of this report. Construction is on schedule, and the mine is expected to commence operation in the second half of 1998.

The financing for the NWT Diamonds Project has also been finalized. The total cost to be shared by the partners is estimated to be US $640 million. This includes initial working capital requirements and contingencies. Under the original Joint Venture Agreement, BHP Diamonds Inc. guaranteed the first US $500 million to develop the project. In addition, under new agreements entered into on April 17, 1997, BHP will guarantee the balance of funds required, subject to reaching satisfactory resolution of marketing arrangements for the project.

The funds and interest will be repaid through 90% of the cash flow generated by the project. This repayment process is expected to take approximately three years.

On April 17, 1997, the NWT Joint Venture participants entered into two separate agreements to govern the relationship of the parties as follows:

A. The Core Zone Joint Venture

The participating interests are BHP Diamonds Inc. - 51%, Dia Met Minerals Ltd. - 29%, Charles E. Fipke and Stewart L. Blusson - 10% each. This agreement deals with Core Zone claims, which contain the five pipes currently in the mine development plan, including the Misery pipe.

B. The Buffer Zone Joint Venture

This governs claims outside the Core Zone including the S.E. Block Claims. The participating interests of the parties are BHP Diamonds Inc. - 51%, Stewart L. Blusson - 31.2%, Charles E. Fipke - 10% and Dia Met Minerals Ltd. - 7.8%.

On April 17, 1997, the Company and Dr. Stewart L. Blusson finalized a settlement agreement with respect to the Buffer Claims. The agreement provides that the Misery pipe will form part of the Core Claims, in which the Company owns a 29% participating interest. In return, the Company has agreed to pay Mr. Blusson a royalty with respect to

Koala diamonds and kimberlite drill core.

17.3% of the production from the Misery pipe, at an agreed per tonne rate. The agreement also provides that the Company's participating interest in the Buffer claims, including the S.E. Block claims will be 7.8%.

In April, 1997, Dia Met completed an offering of 1,800,000 Class A Subordinate Voting Shares at a price of $20.50 per share. In spite of a difficult market, the issue was well received and over-subscribed, and the underwriters did an excellent job in broadening our shareholder base. The gross proceeds of $36,900,000, after deducting the cost of the issue, will be used to fund exploration programs and working capital. An over-allotment option has been granted to the underwriters which, if exercised, would add up to $3,690,000 to the gross proceeds.

The results from Dia Met's subsidiary, Northern Air Support Ltd., were disappointing. Although the chartering and contracting out of helicopters to related and unrelated projects produced satisfactory revenue, the maintenance facility was plagued by very low charge-out rates. For comparison purposes, the competitive hourly rate is approximately 60% of that charged by automobile dealers. A thorough review of this operation has been initiated.

In the previous year, the Dia Met Board of Directors adopted a Statement of Corporate Governance Practices. The committees, as set out in this statement, functioned satisfactorily with the Audit Committee holding four meetings and the others, namely Compensation, Corporate Governance and Environmental and Safety meeting at least once.

In late 1996, Raymond Ashley joined Dia Met as Manager of Exploration. Mr. Ashley has been involved in the NWT project since the beginning, and has contributed significantly to exploration and development. He is a geophysicist, and will be responsible for carrying out the Company's various exploration programs worldwide. His appointment further enhances our ability to successfully explore for minerals, in particular diamonds and gold.

The past year will long be remembered as the period when all facets of the NWT Diamonds Project came together. The operators - BHP Diamonds - are to be congratulated on the manner in which they successfully finalized all the agreements and procured the necessary permits and approvals.

We would also like to thank the employees of Dia Met who are working so hard to assure our successful participation, not only in the Northwest Territories, but in exploration throughout the world.

The current year will see the NWT mine construction move towards completion and the processing machinery shipped for installation early next year, followed by startup in the latter part of 1998.

Dia Met on its own, and in conjunction with its Joint Venture Partners, will continue to work diligently in its greatest area of expertise, namely mineral exploration.

Thank you for your support. We greatly value your continued faith in our Company.

On Behalf of the Board

James E. Eccott

James E. Eccott
President
April 28, 1997

Board Members

From left to right

Seated:

Jim Eccott, *President*

Charles Fipke, *Chairman*

Standing:

George Poling

David Mackenzie

Peter Atkinson

Keith Christofferson

Exploration
& Development Review

DIA MET/BHP NWT DIAMOND PROJECT:
Dia Met Minerals holds a 29% interest in a 450,000 (approximately) acre block, known as the Core Zone claims, in a joint venture with BHP Diamonds Inc. The Dia Met/BHP NWT Diamond Project, located in the Lac de Gras area of the Northwest Territories (NWT), has secured final Government and regulatory approval for the development of Canada's first major diamond mine. Construction of mine site infrastructure has commenced and is proceeding on schedule for commercial production in the second half of 1998.

The permanent accommodation complex was completed on May 1, 1997 and the site workforce will increase to 1,000 in late summer. More than 2,000 truck loads of construction materials and fuel were shipped to the site this year on the winter ice road from Yellowknife. Contracts for major buildings and plant facilities have been awarded. Pre-stripping operations have started for the first open-pit mine at Panda.

In February 1997, following the issuance of major permits, BHP delivered the final feasibility study to its joint venture partners. The study details the mine development plan, based primarily on proven and probable reserves, for the Panda, Misery, Koala, Sable and Fox kimberlite pipes and covers 17 years of operation. The capital costs to the start of production, including all costs to date and contingencies, are estimated at US $700 million.

NWT Diamonds Project
Proposed Mine Development Locations

A total of 77 kimberlites have been discovered so far, and 20 of these have been bulk sampled. Of the twenty pipes, 5 are in the current mine plan and an additional 3 (including Leslie) have economic potential. A further five of the 57 untested diamond-bearing pipes have currently been identified for future bulk sampling. An extensive core-drilling program, in the search for new kimberlite pipes, began in April, 1997. Given these prospects, and continuing exploration, the project can reasonably be expected to have a mine life of at least 25 years. As the following review will show, the discovery of new ore bodies through aggressive exploration has set the pace for the rapid development of this project.

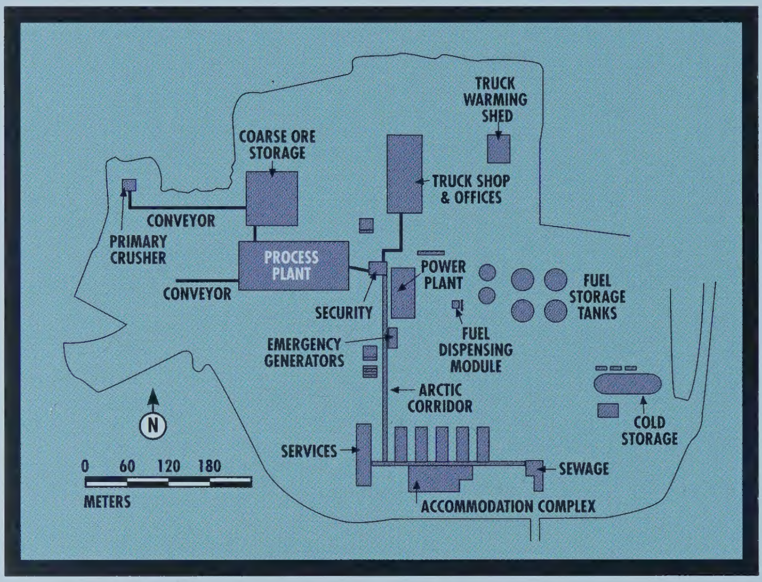
Foreground - Koala camp, bulk sample processing plant, and adjacent airstrip (completed in 1993). Background - White cold storage building located at the mine plant site south of Koala Lake.

The permanent accommodation complex is the first completed building at the plant site.

DIA MET WAS THE FIRST COMPANY TO STAKE DIAMOND CLAIMS IN THE SLAVE PROVINCE OF THE NORTHWEST TERRITORIES.

1981 to 1989

Dia Met Minerals Ltd. was founded in 1983 by its current chairman, Charles E. Fipke in order to fund a systematic sampling program for diamond-indicator minerals in Canada's Northwest Territories. A joint venture between Superior Minerals, Falconbridge and C.F. Mineral Research evaluated the Mountain diatreme located in the western NWT, in 1981. As a part of this evaluation, garnets and chromites were collected near Blackwater Lake by Fipke. Sampling continued for the next 10 years and extended as far as 900 km to the east. Fipke's tenacity eventually resulted in the discovery of high concentrations of diamond-inclusion type minerals north of Lac de Gras. In 1989, the extent of the anomalous glacial sediments was established more accurately and the Company began staking the first diamond claims in the Lac de Gras area. By the end of August, 1990, approximately 450,000 acres known as the Core Zone claims, had been acquired in the Slave Province of the NWT.



Plant site layout. Accommodation complex to be connected by enclosed corridors to Process Plant, Truck Shop and Offices.

1990 & 1991

In September, 1990, a joint venture agreement was signed with BHP. Almost a year later the Point Lake kimberlite pipe was drilled, more than 600 km from the original indicator-mineral finding made by Fipke. The announcement in November, 1991, that 81 diamonds were recovered from 59 kilograms of core obtained from the discovery hole, sparked the largest mineral staking rush in North American history.

1992

In 1992, the Point Lake pipe was bulk sampled with reverse-circulation drills. The joint venture announced that more than 90 carats of diamonds were recovered from the 160-tonne bulk sample. For the first time airborne geophysics was utilized for pinpointing kimberlite pipes in the Slave Province. Nine additional kimberlites were identified that year.

1993

In September, 1993, evaluations of the diamonds recovered from Fox, Leslie and Koala were announced ranging from US $81 at Leslie to US $112 per carat for the 62.11 carats recovered from the nearly 50-tonne Koala sample. The intention to collect 3,500 to 5,000-tonne samples from Fox and Koala was announced, one through an underground decline and the other with large diameter reverse-circulation drilling. To support this work, on site construction of a 200-person camp and a 10-tonne per hour DMS (Dense Media Separation) plant for processing kimberlite bulk samples was completed by late 1993. An airstrip suitable for Boeing 727 and Hercules aircraft was also built. In August, 1993, BHP began environmental baseline studies at the site.

Sixteen additional kimberlites, including Misery ("93J") with extraordinary microdiamond results, were discovered on the property in 1993, bringing up the total to 26.

This winter more than 2,000 truck loads of supplies and equipment were transported to the site on the ice road from Yellowknife.

Entry cut to the 460 m elevation of the Panda open-pit mine.

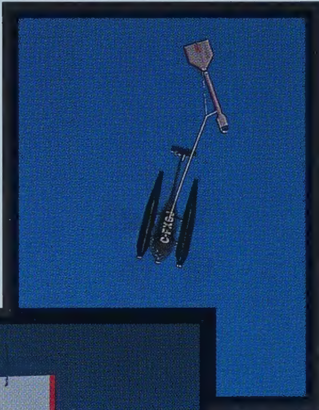
Excavator mixing materials for construction of the Panda frozen-core dam.

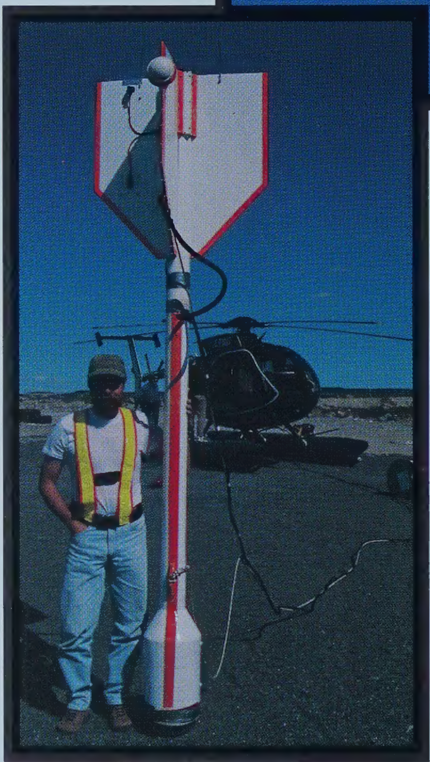
1994

In 1994, it was announced that a total of 1,766 carats of diamonds was recovered from 6,915 tonnes of kimberlite from the Fox underground workings. The large diameter reverse-circulation drilling at Koala resulted in the sampling of 1,193 tonnes of kimberlite. Significant exploration bulk sample results were also announced for the new Panda and Misery kimberlite pipes. At Panda, 270 carats of high quality diamonds were recovered from about 230 tonnes of kimberlite. The main pipe at Misery yielded 437 carats from 132 tonnes of sample for an average grade of 3.3 carats per tonne. An underground sample was subsequently obtained from the Panda kimberlite and, by December, a total of 2,557 carats was recovered from 2,835 tonnes of kimberlite. Thirteen new diamond-bearing pipes were discovered that year, bringing up the total to 39 confirmed pipes.

In May, 1994, BHP formally notified Dia Met of their intention to prepare a feasibility study for the first diamond mine on the joint venture property, and were therefore vested with a 51% interest.

On December 9, the Canadian Minister of the Environment mandated a 4-member Environmental Review Panel for the Environmental Assessment and Review Process (EARP), the highest level of environmental review in Canada. BHP, the project operator, subsequently submitted an updated Project Description Report to the Canadian Government, for the attention of the Review Panel. It proposed the phased development of five kimberlite pipes (Panda, Misery, Koala, Fox, Leslie) with a potential mine life of 25 years, using a combination of conventional open-pit and underground mining. The EARP panel's final Environmental Impact Statement (EIS) guidelines were received in May, 1994.





In 1996, a geophysical "bird" housing a magnetometer was again flown over the property to identify new pipes.

1995

To prove the quality and the grade evaluations of the Misery pipe, a 905-tonne sample was collected during the 1995 winter reverse-circulation drilling program from which 3,885 carats were recovered. The preliminary grade increased to 4.17 carats per tonne. Additional grade, diamond quality and geological information was obtained for other planned production pipes, and the results for Koala, Panda and Fox enhanced or confirmed previously reported grades. Exploration bulk sampling was conducted on 5 additional diamond-bearing pipes. Of these, the Pigeon kimberlite yielded 60 carats, with an average value of US $51 per carat, from a 154-tonne sample for an average grade of 0.39 carats per tonne.

The EIS for the Dia Met/BHP Diamond Project was submitted to the Environmental Review Panel on July 24, 1995. The 8 volume report weighs 64 pounds and cost ~$14 million to produce. It details the development of five kimberlite pipes (Panda, Misery, Koala, Fox, Leslie) using one central processing facility, and includes a comprehensive Environmental Management Plan.

In September, 1995, complete bulk sampling results were released for the first four pipes to be mined. The average diamond values ranged from US $26 per carat at Misery to US $130 per carat for Panda.

The 1995 summer exploration program identified an additional 18 pipes, bringing up the total to 57 known kimberlites.

Reverse-circulation drill and support equipment bulk sampling the Sable kimberlite pipe during the winter of 1996.

A 1,096-tonne bulk sample of Sable kimberlite was obtained using 12.25"-diameter reverse-circulation drills.

Bags of kimberlite from the Sable pipe being loaded for shipment to the Koala plant for processing.

1996

On May 29, 1996, results from the 1996 winter reverse circulation drilling program were announced. Bulk samples were taken from five previously untested diamond-bearing pipes. A total of 1,070 carats of diamonds was recovered from the 1,096-tonne Sable kimberlite sample for an average grade of 0.98 carats per tonne. The evaluation of the Sable diamond parcel was made in Antwerp, in May. The average sample value was US $64 per carat, including a gem quality stone weighing 8.96 carats. If the large stone was excluded, the average value was US $48 per carat. A total of 476 carats of diamonds was also recovered from 237 tonnes of kimberlite from the Jay pipe, for an average grade of 2.01 carats per tonne. Core delineation drilling of the Sable kimberlite was completed during the summer. In addition, the entire joint venture property was re-flown with a high-resolution airborne magnetic survey, to identify new kimberlite targets for drill testing. Twenty new kimberlite pipes were discovered during the summer exploration drilling program, bringing up the total to 77 proven kimberlites.

85-tonne mine truck hauling excavated material from pre-stripping operations at the Panda pit.

The Environmental Review Panel's report reviewing the NWT Diamonds Project, which was released to the public by the Canadian government on June 21, 1996, recommended approval to the Federal government of the development of the NWT Diamonds project, subject to certain conditions. The panel concluded that the environmental effects of the project are largely predictable and mitigable. The report was the culmination of a very thorough public review process, which included consultation in nine northern communities over a span of 18 months. Its submission completed the Environmental Assessment Review Process (EARP). Except for uranium mines, the NWT Diamonds Project is the first mining project in Canada to complete a full EARP Panel Review.

In August, 1996, the federal government conditionally approved the project, subject to satisfactory progress being made within 60 days, on the negotiation of a number of agreements. By November 1, 1996, this condition had been met, following negotiations on a number of agreements between BHP and the federal government, the government of the NWT, and four Aboriginal groups.

On November 1, 1996, the Minister of the Department of Indian Affairs and Northern Development (DIAND) and the Premier of the NWT announced that the NWT Diamonds Project had received final approval from federal Cabinet for development, subject to the normal regulatory process.

1997

The final regulatory approval requirements for the development of the NWT Diamonds Project were completed on January 7, 1997. An 8-year Class A Water Licence was issued by the NWT Water Board and the Minister of DIAND, pertaining specifically to the development of the Panda, Misery and Koala pipes. Six 30-year land leases were issued by DIAND. An Environmental Agreement was signed by DIAND, the Government of the NWT and BHP after consultation with four aboriginal groups.

In February 1997, following the completion of the permitting and licensing process, BHP delivered the final feasibility study for the NWT Diamonds Project to its joint venture partners. The study details the development plan for five kimberlite pipes, namely Panda, Misery, Koala, Sable and Fox, over the 17-year initial life of the project. Additional pipes have been identified for future bulk sampling and, given these prospects and ongoing exploration, the joint venture anticipates that the life of

The monitoring of bird life is part of the environmental program.

Research is being conducted to determine the best way to restore the vegetation in disturbed areas, such as entrance to Fox decline shown above.

the project will be in excess of that put forward in the feasibility study. Apart from the substitution of the higher grade Sable pipe for Leslie, all other major elements of the mine development plan, such as processing, tailings disposal and site reclamation plans in the EIS published by BHP in July, 1995, are unchanged.

The Feasibility Study proposes that five diamond-bearing pipes will be developed as open pits and that two of these pipes will also be mined underground, as justified by their higher ore values. Highlights of the information which support the economic viability of the project, as released by the joint venture in March, 1997, are as follows:

Mining rates for each area are determined by ore grade, diamond quality and specific ore processing characteristics. A total of approximately 78 million tonnes of ore, of which 85% is defined as proven or probable reserves, and approximately 508 million tonnes of waste rock, are scheduled to be mined over the 17-year initial life of the project.

MINE PRODUCTION SCHEDULE:

The base scenario for mine production schedule as set out in the Study is shown below. This scenario may change as a result of further exploration, bulk sampling, market conditions or engineering decisions.

	PRODUCTION YEARS
PANDA PIT	1-5
MISERY PIT	2-15
KOALA PIT	5-11
FOX PIT	11-17
SABLE PIT	10-15
PANDA U/G	6-11
KOALA U/G	11-15

During the first nine years of operations, the combined production from active mines will provide ore for processing at a rate of 9,000 t/d (3.3 million t/a), increasing to 18,000 t/d (6.5 million t/a) from Year 10 to the end of the life of the project as put forward in the Study. It is anticipated that diamond carat production will provide a relatively constant total revenue throughout the life of the mine.

SUMMARY OF MINING RESERVES (MILLION TONNES)

CLASSIFICATION	PANDA PIT	MISERY PIT	KOALA PIT	FOX PIT	SABLE PIT	PANDA U/G	KOALA U/G	TOTAL
Proved	8.6	4.8	10.0	8.1	11.0	–	1.0	43.5
Probable	4.0	0.7	4.6	8.6	1.9	0.8	1.8	22.4
Total	**12.6**	**5.5**	**14.6**	**16.7**	**12.9**	**0.8**	**2.8**	**65.9**
Mining reserves as a percentage of scheduled production	100	100	96	66	100	33	70	85
Grade (ct/tonne) (diluted basis)	1.09	4.26	0.76	0.40	0.93	0.97	1.63	1.09
Average value (US$/ct)	130	26	122	125	64	130	122	84

DIA MET FINLAND PROJECT: (100% Dia Met)

In the summer of 1995, the Company completed a major heavy mineral reconnaissance sampling program throughout northern and central Finland. The program identified a number of areas of anomalous kimberlite indicator minerals with chemistry favorable for diamonds. A high resolution 25,476 line kilometer helicopter-borne geophysical survey was flown over these areas in the spring of 1996. To date, about 4,500 reconnaissance and follow-up samples have been collected, and 125 claims have been staked. An extensive ground geophysical program was carried out during the winter of 1997 to detail airborne geophysical targets for drill testing. The first core drilling program on the Company's Finland project commenced in mid-March. The Company expended in excess of $5 million Cdn. on exploration in Finland to January 31, 1997.

The first exploration core drilling program on the Company's Finland Project started in March, 1997

The initial plan calls for exploration expenditures of ~$5 million Cdn. in fiscal 1998.

FINANCIAL REPORT

Management Discussion & Analysis

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and related notes.

RESULTS OF OPERATIONS

For the fiscal year ended January 31, 1997, ("fiscal 1997") the Company earned revenue of $3,141,783 compared to $1,779,420 for the fiscal year ended January 31, 1996 ("fiscal 1996") and $1,951,330 for the fiscal year ended January 31, 1995 ("fiscal 1995"). Interest and other income was relatively consistent between the fiscal years presented despite a decrease in the average amount invested in temporary investments. This was due largely to the amortization into interest income in fiscal years 1996 and 1997 of a portion of a previous write down of temporary investments to market together with an increase in exploration project management fees over the fiscal periods and particularly between fiscal 1996 and fiscal 1997. Revenue from aircraft operations was up significantly between fiscal periods due to increased outside charter of aircraft, as well as increases in revenue from maintenance and repair services. Revenue from the diamond recovery plant operations in fiscal 1997 was $35,383 as compared to no revenue for fiscal 1996 and $438,551 in fiscal 1995. The plant is highly specialized and the sources and timing of revenues can vary significantly.

Total expenses before write offs of the costs of mineral properties abandoned were $4,773,932 in fiscal 1997 compared to $2,343,866 in fiscal 1996 and $2,457,041 in fiscal 1995. Aircraft operations expenses increased each fiscal year reflecting the general increase in overall operations indicated by the increased revenues. The diamond recovery plant operating costs for fiscal 1997 were significant relative to revenues for the year and reflect higher ongoing maintenance costs performed on equipment and property. Depreciation was up for fiscal 1997 over fiscal 1996 and fiscal 1995 due primarily to additional depreciable assets being purchased in fiscal years 1996 and 1997. General and administrative expenses increased slightly for fiscal 1996 over fiscal 1995, due primarily to salary costs increases, premises costs increasing due to the acquisition of more office space and more expenditures on investor relations. In addition, the listing of the Company's shares on the American Stock Exchange in July, 1995 was followed by higher insurance premiums and more exchange fees. General and administrative costs increased for fiscal 1997 over fiscal 1996, reflecting increased professional fees related to various general business matters, higher interest expense due to increased borrowing on the Company's margin account throughout the year, and general increases in a number of office overhead items.

There was no write down of temporary investments to market in fiscal 1997 or fiscal 1996 as there was in fiscal 1995 because the market values of temporary investments at January 31, 1997 and January 31, 1996 were above their carrying value at those times. Temporary investments held by the Company are interest sensitive and the drop in interest rates in the later part of fiscal 1996 and in fiscal 1997 had a positive impact on the market value of the temporary investments held by the Company.

The write off of the costs of mineral properties abandoned were up significantly to $1,491,194 in fiscal

1996 from $48,707 in fiscal 1995. The largest part of the fiscal 1996 write offs related to two Canadian exploration programs, one in Eastern Canada ($930,090) and one in Western Canada ($311,985) which were abandoned after exploration and test results did not support further work being done on these programs. Costs of abandoned mineral properties for fiscal 1997 were $124,048 and related to one project.

Aircraft operations carried on through the Company's 100% owned subsidiary, Northern Air Support Ltd., continued to record losses for consolidation purposes amounting to $700,724 in fiscal 1997 versus a loss of $139,295 in fiscal 1996 and a loss of $191,192 in fiscal 1995. Approximately $244,000 of the fiscal 1997 loss related to depreciation and $133,825 related to profit eliminated on intercompany revenues and the elimination of other intercompany transactions. Increased administrative and other costs incurred due to the rapid growth of the company from operating one company-owned helicopter in fiscal years 1995 and 1996 to operating two company-owned and four leased helicopters in part of fiscal 1997 also contributed to the loss. Current business plans for the subsidiary call for improved performance in the coming fiscal year.

The Company's diamond recovery plant is highly specialized and its outside use depends heavily on the extent of diamond exploration throughout North America. The plant was used in fiscal 1995, was not used in fiscal 1996, and was used on a limited basis in fiscal 1997. The Company's investment in the plant is minimal and cash generated from revenues earned in fiscal 1997 were used on needed ongoing maintenance of equipment and property.

The Company has not earned any income from its mining operations. In respect of the NWT Diamond Project, government and all other approvals necessary for the project to proceed have been obtained and construction on the project is proceeding with approximately $210 million US having been spent to date on exploration and development. Production from Canada's first gem quality diamond mine is expected to commence in the second half of calendar 1998.

LIQUIDITY AND CASH RESOURCES

At January 31, 1997, the Company's cash position was $2,821,984 which was a decrease in cash of $4,066,764 from January 31, 1996 and $8,494,503 from January 31, 1995. In all fiscal years cash was received from interest and other income and revenue from aircraft operations of the Company's subsidiary. Cash was also generated from diamond recovery plant operations in fiscal years 1995 and 1997. In addition to being used to cover operating expenses in all fiscal years, a significant use of cash in fiscal years 1997, 1996 and 1995 was for expenditures on deferred exploration and development which amounted to $4,256,031, net of option payments applied in fiscal 1997, $3,125,191, net of option payments applied in fiscal 1996 and $1,387,690 in fiscal 1995. At January 31, 1997 the Company had working capital of $2,581,398 as compared to working capital of $3,351,238 as at January 31, 1996.

The Company anticipates incurring exploration expenditures in fiscal 1998 in the area of $6,500,000 - $8,000,000 (excluding any exploration expenditures to be funded from cash restricted for exploration), and expects professional fees and other fees and general office and administration expenses to increase slightly over previous years as the Company grows and develops to meet its new challenges as commercial production related to the NWT Diamond Project approaches.

On April 10, 1997, the Company issued 1,800,000 Class A Subordinate Voting Shares through a public offering at an issue price of $20.50 per share, for gross proceeds of $36,900,000. The underwriters' fee for the issue was $1,660,500. The underwriters were also granted an option to purchase 180,000 more Class A shares at $20.50 per share for a fee of $.9225 per share. The option lasts for 60 days after April 1, 1997. Funds secured through the public offering will be used to fund general and administrative expenses and planned exploration and development over the next three fiscal periods and additional exploration activity as

opportunities and developments warrant.

Given the funding acquired through the public offering, the Company will not require additional working capital during the next twelve months.

It is not anticipated that the Company will have to advance any significant amount of working capital to Northern Air Support Ltd. during fiscal 1998. There are no restrictions on the ability of Northern Air Support Ltd. to transfer funds to the Company.

The Company had long term debt of $371,823 at January 31, 1997 which related to a promissory note payable by Northern Air Support Ltd. on the purchase of a helicopter. Subsequent to January 31, 1997 the aircraft securing this note was sold and the long term debt was retired in full from the proceeds on the sale of the aircraft.

When the NWT Diamond Project goes into production, the Company will have to repay its proportionate share of the costs incurred in placing the mine into production. The BHP Diamonds Inc. ("BHP") joint venture agreement provides that BHP must advance up to $500 million US to place the first mine into production and that the Company must repay BHP its proportionate share of funds advanced by BHP, with interest at LIBOR plus 3% per annum, out of 90% of its share of net cash flow from the mine. If the costs of the first mine exceeds $500 million US, the Company must pay its proportionate share of the excess costs.

The feasibility study for the NWT Diamond Project estimates that the capital cost of the project to the start of production will be approximately $700 million US, including contingencies. The capital cost estimate reflects all project costs to the start of production, and includes working capital to the commencement of production, cash outlays incurred during the initial production of diamond stock until the diamond revenue is established, and prestripping costs for the first pipe to be put into production. Approximately $59 million US of the total capital cost to the start of production is not shareable between the joint venture participants and is to be borne exclusively by BHP. Of the shareable funding requirements in excess of $500 million US, the Company's proportionate share is approximately $40 million US. The Company has made satisfactory arrangements with BHP to obtain financing for this amount, subject to reaching satisfactory resolution of marketing arrangements for the project.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Dia Met Minerals Ltd. as at January 31, 1997 and 1996 and the consolidated statements of operations and deficit, mineral properties and changes in financial position for the years ended January 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1997 and 1996 and the results of its operations, and changes in its financial position for the years ended January 31, 1997, 1996 and 1995 in accordance with generally accepted accounting principles in Canada.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the years ended January 31, 1997, 1996 and 1995 and shareholders' equity as at January 31, 1997 and 1996, to the extent summarized in note 12 to the consolidated financial statements.

KPMG

Chartered Accountants
Kelowna, Canada
March 20, 1997, except as to note 10 (c) which is as of April 10, 1997.

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian dollars)
January 31, 1997 and 1996

	1997	1996
ASSETS		
Current assets:		
Cash	$ 269,268	$ 104,105
Temporary investments *(note 1(e))*	2,629,915	7,692,493
Accounts receivable	381,313	980,475
Inventory	131,390	107,620
Prepaid expenses	279,572	134,682
	3,691,458	9,019,375
Cash restricted for exploration *(note 8(g))*	732,621	887,069
Property, plant and equipment *(note 2)*	2,230,393	1,746,585
Mineral properties:		
Mineral and exploration interests *(note 3)*	486,642	160,693
Deferred exploration and development costs *(note 4)*	10,237,640	6,431,606
	10,724,282	6,592,299
	$ 17,378,754	$ 18,245,328
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loan payable *(note 5)*	$ 77,199	$ 907,850
Accounts payable and accrued liabilities	961,057	693,287
Settlement payable	–	4,067,000
Current portion of long term debt	71,804	–
	1,110,060	5,668,137
Long term debt *(note 6)*	300,019	–
Deferred option payments *(note 8(g))*	732,621	887,069
Shareholders' equity:		
Share capital *(note 7)*	24,899,960	19,593,835
Deficit	(9,663,906)	(7,903,713)
	15,236,054	11,690,122
Agreements, commitments and contingencies *(note 8)*		
Related party transactions *(note 9)*		
Subsequent events *(note 10)*		
	$ 17,378,754	$ 18,245,328

See accompanying notes to consolidated financial statements

On Behalf of the Board:

Director James E. Eccott Director K.A. Christofferson

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian dollars)

	Years ended January 31, 1997	1996	1995
Revenue:			
Interest and other income	$ 829,129	$ 867,614	$ 837,011
Aircraft operations	2,277,271	911,806	675,768
Diamond recovery plant operations	35,383	–	438,551
	3,141,783	1,779,420	1,951,330
Expenses:			
Aircraft operations	2,734,054	826,835	679,341
Depreciation	286,019	240,245	197,810
Diamond recovery plant operations	61,274	6,658	160,514
General and administrative	1,692,585	1,270,128	1,111,272
Write down of temporary investments to market	–	–	308,104
	4,773,932	2,343,866	2,457,041
Loss before the following	(1,632,149)	(564,446)	(505,711)
Other expense:			
Cost of mineral properties abandoned	124,048	1,491,194	48,707
Loss before income taxes	(1,756,197)	(2,055,640)	(554,418)
Income taxes *(note 11)*	3,996	5,469	95,364
Loss for the year	(1,760,193)	(2,061,109)	(649,782)
Deficit, beginning of year	(7,903,713)	(5,842,604)	(5,192,822)
Deficit, end of year	$ (9,663,906)	**$ (7,903,713)**	**$ (5,842,604)**
Loss per share *(note 1(k))*	$ (.06)	**$ (.08)**	**$ (.02)**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES

(Expressed in Canadian dollars)

	1997	1996	1995
		Years ended January 31,	
Expenditures during the year for mineral interests and deferred exploration and development			
Mineral interests	$ 325,949	$ –	$ –
Deferred exploration and development costs:			
Claims exploration, laboratory, assay and engineering expenditures	5,513,657	3,206,583	1,071,411
Management fees and salaries	120,854	62,646	44,346
Office and other	23,883	10,471	84,832
Professional fees	210,512	84,531	97,453
Travel and other	139,853	131,014	89,648
	6,008,759	3,495,245	1,387,690
Less:			
Deferred option payments applied	(2,078,677)	(370,054)	–
	4,256,031	3,125,191	1,387,690
Less:			
Cost of claims abandoned or sold:			
Mineral interests	–	(7,931)	–
Deferred exploration and development costs	(124,048)	(1,490,679)	(48,707)
Compensation for loss of mineral samples	–	1,027	–
Other income	–	6,389	–
	(124,048)	(1,491,194)	(48,707)
Balance, beginning of year	6,592,299	4,958,302	3,619,319
Balance, end of year	**$ 10,724,282**	**$ 6,592,299**	**$ 4,958,302**

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Expressed in Canadian dollars)

	1997	Years ended January 31, 1996	1995
Cash provided by (used in):			
Operations:			
Loss for the year	$ (1,760,193)	$ (2,061,109)	$ (649,782)
Items not involving cash:			
Depreciation	286,019	240,245	197,810
Cost of mineral properties abandoned	124,048	1,491,194	48,707
Change in non-cash operating working capital	(3,368,728)	(595,652)	166,280
	(4,718,854)	(925,322)	(236,985)
Financing:			
Deferred option payments received	1,700,000	1,257,123	–
Deferred option payments applied to expenditures on mineral properties	2,078,677	370,054	–
Increase in long term debt	371,823		–
Decrease in cash deposits held on shares to be issued	–	–	(103,497)
Shares issued for cash and for settlement	5,306,125	–	517,869
	9,456,625	1,627,177	414,372
Investments:			
Expenditures on mineral interests	(325,949)	–	–
Expenditures on deferred exploration and development	(6,008,759)	(3,495,245)	(1,387,690)
Purchases of property, plant and equipment	(769,827)	(377,226)	(142,637)
Cash restricted for exploration	(1,700,000)	(1,257,123)	–
	(8,804,535)	(5,129,594)	(1,530,327)
Decrease in cash	(4,066,764)	(4,427,739)	(1,352,940)
Cash, beginning of year	6,888,748	11,316,487	12,669,427
Cash, end of year	**$ 2,821,984**	**$ 6,888,748**	**$ 11,316,487**
Cash is defined as:			
Cash	$ 269,268	$ 104,105	$ 322,951
Temporary investments	2,629,915	7,692,493	10,993,536
Loan payable	(77,199)	(907,850)	–
	$ 2,821,984	**$ 6,888,748**	**$ 11,316,487**

See accompanying notes to consolidated financial statements

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

Dia Met Minerals Ltd. is incorporated under the laws of British Columbia and its principal business activities include mineral property exploration and development.

1. SIGNIFICANT ACCOUNTING POLICIES:

a) Basis of presentation:

The Company, directly and indirectly through joint exploration and development ventures and other arrangements, is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable, except for the property associated with the Northwest Territories claims. The Northwest Territories claims are proceeding to production (note 8(c)).

The recoverability of the amounts shown for mineral properties and property, plant and equipment of $10,724,282 and $2,230,393, respectively, as at January 31, 1997, other than costs of $1,467,409 associated with the Northwest Territories claims, is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and the generation of sufficient income through future production from or the disposition of such assets.

These financial statements have been prepared on the basis of accounting principles generally accepted in Canada. The results of applying accounting principles generally accepted in the United States are set out in note 12.

b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

d) Financial instruments:

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short term nature of these instruments. The carrying amount of the loan payable approximates fair value because its interest rate fluctuates with the market. The carrying amount of long-term debt approximates fair value because the Company's current borrowing rate for similar debt instruments of comparable maturity is not materially different.

e) Temporary investments:

Temporary investments are stated at the lower of cost and quoted market value.

	1997	1996
Quoted market value	$ 2,835,954	$ 8,050,112

f) Inventory

Inventory is stated at the lower of cost and net realizable value.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

g) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Method	Rate
Aircraft operations:		
Aircraft	Straight-line	20%
Utility and shop equipment	Declining balance	20%
Operations equipment	Declining balance	20%
Office equipment	Declining balance	20% and 30%
Building	Straight-line	4%
License	Straight-line	2.5%
Diamond recovery plant:		
Building	Straight-line	2.5%
Machinery and equipment	Straight-line	2.5%
Furniture and fixtures	Straight-line	10%
Head office:		
Furniture, fixtures and equipment	Declining balance	15%
Leasehold improvements	Straight-line	20%
Exploration:		
Equipment	Declining balance	15%

h) Mineral properties:

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred. Mineral properties acquired for share consideration are recorded at the fair value of the shares at the date of acquisition.

Management periodically reviews the carrying values of its investments in mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral and exploration interests and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations through unit of production depletion based on proven and probable reserves.

i) Joint exploration and development ventures:

A portion of the Company's exploration and development activities are conducted jointly with others and accordingly these financial statements reflect only the Company's share of expenditures in such activities.

j) Foreign currency translation:

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

i) Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;

ii) Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and

iii) Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date except for depreciation, which is translated at the same rate as the assets it relates to.

Gains or losses on translation are included in earnings.

k) Loss per share:

Loss per share has been calculated using the weighted average number of common shares outstanding during the years. The full exercise of share options referred to in note 7 is anti-dilutive for all years presented and consequently loss per share on a fully diluted basis has not been presented.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

2. PROPERTY, PLANT AND EQUIPMENT:

1997	Cost	Accumulated Depreciation	Net book Value
Aircraft operations:			
Aircraft	$ 1,983,839	$ 637,895	$ 1,345,944
Utility and shop equipment	39,013	12,199	26,814
Operations equipment	89,988	20,756	69,232
Office equipment	28,368	10,593	17,775
Building	316,103	20,962	295,141
License	36,560	1,353	35,207
	2,493,871	703,758	1,790,113
Diamond recovery plant:			
Land	13,934	–	13,934
Building	48,346	3,626	44,720
Machinery and equipment	84,540	6,340	78,200
Furniture and fixtures	15,000	4,500	10,500
	161,820	14,466	147,354
Head office:			
Furniture, fixtures and equipment	130,994	31,960	99,034
Leasehold improvements	49,928	20,182	29,746
	180,922	52,142	128,780
Exploration:			
Equipment	177,455	13,309	164,146
	$ 3,014,068	**$ 783,675**	**$ 2,230,393**

1996	Cost	Accumulated Deprecation	Net book Value
Aircraft operations:			
Aircraft	$ 1,517,019	$ 427,809	$ 1,089,210
Utility and shop equipment	26,006	7,122	18,884
Operations equipment	43,791	9,223	34,568
Office equipment	16,270	6,907	9,363
Building	311,917	8,318	303,599
License	26,336	439	25,897
	1,941,339	459,818	1,481,521
Diamond recovery plant:			
Land	13,934	–	13,934
Building	48,347	2,418	45,929
Machinery and equipment	84,540	4,227	80,313
Furniture and fixtures	15,000	3,000	12,000
	161,821	9,645	152,176
Head office:			
Furniture, fixtures and equipment	91,154	17,998	73,156
Leasehold improvements	49,928	10,196	39,732
	141,082	28,194	112,888
	$ 2,244,242	**$ 497,657**	**$ 1,746,585**

(Expressed in Canadian dollars)
Years ended January 31, 1997, 1996 and 1995

3. MINERAL AND EXPLORATION INTERESTS:

Program and location	Nature of interest	1997	1996
Paul-Mike claims, near Cranbrook, B.C. .	100% of mineral claims *(see note 10(b))*	$ 44,287	$ 44,287
Albert River claims, near Radium, B.C.	Joint venture interest *(see note 8(a))*	7,863	7,863
Jack claims, near Golden, B.C.	100% of mineral claims	1,546	1,546
Northern Gold and Bandit claims, northeastern B.C.	1% net smelter royalty *(see note 8(b))*	39,297	39,297
Northwest Territories claims	Joint venture interest *(see note 8(c))*	67,700	67,700
Western Alberta joint program	Joint venture interest *(see note 8(d))*	–	–
Western United States program	100% of exploration program	–	–
Iron Range program	Joint venture interest *(see notes 8(e) and 8(g))*	–	–
Nevada Gold program	Joint venture interest *(see notes 8(f) and 8(g))*	–	–
Finland program	100% of exploration program *(see note 8(h))*	325,949	–
Eastern Europe program	100% of exploration program *(see note 8(i))*	–	–
Venezuela program	100% of exploration program *(see note 10(b))*	–	–
Magnesite Belt program	100% of exploration program *(see note 8(j))*	–	–
Other	Various	–	–
		$ 486,642	**$ 160,693**

4. Deferred exploration and development costs:

Deferred exploration and development costs have been incurred on individual mineral and exploration interests as follows:

	1997	1996
Paul-Mike claims	$ 420,611	$ 399,948
Albert River claims	203,074	203,074
Jack claims	372,405	372,405
Northern Gold and Bandit claims	899,601	899,601
Northwest Territories claims	1,399,709	1,226,368
Western Alberta joint program	771,844	771,442
Western United States program	54,300	54,300
Iron Range program	46,042	46,042
Nevada Gold program	51,506	51,506
Finland program	4,864,063	2,116,662
Eastern Europe program	914,746	261,088
Venezuela program	163,073	–
Magnesite Belt program	58,635	29,170
Other	18,031	–
	$ 10,237,640	**$ 6,431,606**

5. Loan payable:

The loan payable is secured by temporary investments.

6. Long term debt:

	1997	1996
Promissory note repayable in monthly payments of $8,528 including interest at 9%, secured by aircraft	$ 371,823	$ –
Less:		
Current portion *(note 10(d))*	71,804	–
	$ 300,019	**$ –**

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

7. **SHARE CAPITAL:**

The following changes occurred to authorized and issued share capital during the periods indicated:

Authorized:

	Number of common shares	Number of Class A shares	Number of Class B shares
Balance, January 31, 1994	50,000,000	–	–
Stock split on February 22, 1994	50,000,000	–	–
	100,000,000	–	–
Capital reorganization on July 14, 1994	(100,000,000)	100,000,000	25,000,000
Balance, January 31, 1995, 1996 and 1997	–	**100,000,000**	**25,000,000**

Class A shares are without par value, entitled to one vote per share and in certain circumstances are convertible to one Class B share.
Class B shares are without par value, entitled to ten votes per share and are convertible to one Class A share.
The Class A and Class B shares have the same rights and are equal in all respects except as stated above.

Issued:

	Number of common shares	Number of Class A shares	Amount related to Class A shares	Number of Class B shares	Amount related to Class B shares	Amount related to all shares
Balance, January 31, 1994	10,731,315	–	$ –	–	$ –	$ 19,075,966
Issued for cash on exercise of options	2,500	–	–	–	–	36,250
Stock split on February 22, 1994	10,733,815	–	–	–	–	–
Issued for cash on exercise of options	40,066	–	–	–	–	289,395
Capital reorganization on July 14, 1994	(21,507,696)	5,376,924	3,620,992	21,507,696	15,780,619	19,401,611
Issued for cash on exercise of options	–	6,150	38,444	24,600	153,780	192,224
Balance, January 31, 1995 and 1996	–	5,383,074	$ 3,659,436	21,532,296	$15,934,399	$ 19,593,835
Issued for cash on exercise of options	–	106,750	1,055,725	13,000	183,400	1,239,125
Issued in payment of settlement (note 12(c))	–	350,000	4,067,000	–	–	4,067,000
Balance, January 31, 1997	–	**5,839,824**	**$8,782,161**	**21,545,296**	**$16,117,799**	**$24,899,960**

(Expressed in Canadian dollars)
Years ended January 31, 1997, 1996 and 1995

7. SHARE CAPITAL (continued):

In addition to the shares issued:

a) A further 125,000 Class A shares and 500,000 Class B shares may be issued as disclosed in note 8(c).

b) The directors and certain other individuals have been granted options to purchase shares of the company, subject to their remaining as a director or employee prior to exercising the option, as follows:

Expiry date	Price per share	Outstanding January 31, 1996	Issued	Exercised	Outstanding January 31, 1997
Class A Shares:					
July 2, 1997	$ 5.80	19,550	–	–	19,550
August 17, 1997	6.80	750	–	750	–
March 10, 1998	15.80	60,000	–	–	60,000
March 10, 1998	9.25	1,500	–	1,500	–
July 12, 1998	15.80	26,000	–	–	26,000
December 17, 1998	9.25	2,500	–	2,500	–
September 23, 2004	13.37	625,000	–	–	625,000
September 23, 2004	9.25	12,000	–	11,000	1,000
February 21, 2005	9.25	641,000	–	65,500	575,500
July 19, 2005	12.00	73,000	–	25,500	47,500
January 4, 2006	12.50	50,000	–	–	50,000
February 5, 2006	11.25	–	200,000	–	200,000
April 9, 2006	16.75	–	65,000	–	65,000
June 14, 2006	19.20	–	37,500	–	37,500
November 15, 2006	19.50	–	456,000	–	456,000
Class B Shares:					
July 2, 1997	5.80	78,200	–	–	78,200
August 17, 1997	6.80	3,000	–	3,000	–
March 10, 1998	15.80	246,000	–	–	246,000
July 12, 1998	15.80	104,000	–	–	104,000
December 17, 1998	16.30	10,000	–	10,000	–

8. AGREEMENTS, COMMITMENTS AND CONTINGENCIES:

a) Albert River joint venture:

The Company has a 51% participating interest in certain claims which are being developed through a joint venture. Exploration expenditures are funded by each party in proportion to the respective party's participating interest. The joint venture agreement provides formulas for dilution and the calculation of net profit interests in certain circumstances.

b) Northern Gold and Bandit claims:

The Company has a carried 1% net smelter royalty interest and other interests in 600 units of mineral claims. Royalties will be paid after first deducting $228,573 from any such royalties.

c) Northwest Territories claims:

The Company has a 29% participating interest in certain of the claims held by a joint venture (referred to as Core and Buffer claims). The joint venture participant holding a 51% participating interest must provide financing for the other joint venture participants up to $500 million US for the first mine as long as its joint venture interest does not fall below 50%. When a mine is established on the claims, the Company must repay the 51% participant its share of the mine financing and preparation costs plus interest at LIBOR plus 3% per annum from 90% of its share of the net cash flow from the mine until recoupment. Funding in excess of $500 million US for the first mine and funding for a second and subsequent mines would require the Company to provide pro rata funding or suffer dilution of its interest in such mines.

On November 1, 1996 the Diamond Mine (consisting of four pipes in the Core claims and one pipe in the Buffer claims) received final approval for development from the federal cabinet of the Government of Canada. All other final regulatory approval requirements for the development were completed on January 7, 1997. In early February, 1997 the participant holding a 51% participating interest delivered to the Company the final feasibility study for the Diamond Mine as required by the joint venture agreement.

As of April 1, 1997, the 51% participant has spent approximately $210 million US on exploration and development on the project.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

8. AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued):

c) Northwest Territories claims (continued):

The Company currently estimates its share of the estimated costs of the first mine in excess of $500 million US to be approximately $40 million US Based on discussions to date, the Company anticipates that satisfactory arrangements will be made with the 51% joint venturer to obtain financing for this amount.

For certain other claims (SE Block claims) held by the joint venture, the Company retains a 24.5% participating interest subject to a 10% non-contributing interest held by another party. The non-contributing interest provides that the Company and another joint venture participant must pay the 10% share of all expenditures incurred on the claims. The 10% non-contributing interest will not receive any proceeds from production from the claims until the Company and another joint venture participant have recovered such expenditures. The Company's participating interest in these claims may be diluted down to a 9.8% participating interest in certain circumstances.

The Company has a commitment to issue to two directors a total of 125,000 Class A shares and 500,000 Class B shares if there are more than 300 days of commercial production from a mine in this venture.

A writ has been filed in the Supreme Court of British Columbia by a third party claiming an increased participating interest has been earned in the Buffer claims. The third party is requesting the Court to directly and/or indirectly recognize his interest. As no evidence has been received and examinations for discovery have not occurred, it is difficult to evaluate the claim. It is important to note that the dispute does not affect the Core claims currently under development as part of the Diamond Mine. However, the Misery Pipe, which is also proposed for development as part of the Diamond Mine, is located within the Buffer claims.

d) Western Alberta joint program:

The Company has a joint venture agreement with a third party allowing the third party the right to earn a 51% participating interest in the joint venture. To acquire their interest, the third party must expend an aggregate $1,600,000 on the joint venture program by December 31, 1997. During the period the third party is acquiring their 51% participating interest, joint venture expenditures are to be shared 71.43% by the third party and 28.57% by the Company. Once the 51% participating interest is earned by the third party, the Company will retain a carried interest of 15.66% and a participating interest of 33.34%. Joint venture expenditures on the 15.66% carried interest held by the Company will be repaid to the third party in full out of 90% of the product attributable to the 15.66% carried interest. After these expenditures have been repaid, the product will be shared 51% by the third party and 49% by the Company.

e) Iron Range program:

In an agreement with a third party, the Company agreed to conduct an exploration program to certain limits within an area of interest using the services of the third party. The Company has the option of acquiring a 100% interest in certain Crown granted mineral claims owned by the third party subject to net smelter return royalties of .5% each held by two other parties against the claims and on providing a 2% net smelter return royalty to the third party on these claims. The third party is also entitled to a 2% net smelter return royalty on any further mineral interests or real property acquired by the Company within the area of interest covered by the agreement. The Company has the right, at any time within 20 years of the date of the agreement, to purchase 50% of the third party's royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The agreement terminates on August 31, 1998 unless extended by mutual consent.

f) Nevada Gold program:

In an agreement with a third party, the Company agreed to conduct an exploration program to certain limits within an area of interest using the services of the third party. The third party has the right to receive a 2% net smelter return royalty on any production from property acquired under this agreement. The Company has the right, at any time within 20 years of the date of the agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The agreement terminates on August 31, 1998 unless extended by mutual consent.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

8. AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued):

g) Iron Range and Nevada Gold Joint Venture:

Under an option and joint venture agreement, the Company granted a third party the right to acquire up to a 49% participating interest in the claims and areas of interest covered under the Iron Range and Nevada Gold programs referred to above. Terms of the agreement require the third party to make the following payments on or before the dates indicated:

Date Payment Due	Amount	Cumulative Participating Interest Earned	Received Toward Participating Interest
December 13, 1995	$ 250,000	Nil	$ 250,000
July 15, 1996	900,000	12.25%	900,000
July 15, 1997	850,000	24.50%	800,000
July 15, 1998	1,000,000	30.75%	
July 15, 1999	1,000,000	49.00%	

All funds received from the third party to a total of $4,000,000 are to be used for exploration expenditures on programs conducted under the agreement. Joint venture exploration expenditures in excess of $4,000,000 will be funded by each party in proportion to each party's participating interest in the joint venture. The agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. Funds received under the agreement to January 31, 1997 total $1,950,000 and the unexpended balance of such funds received are included in cash restricted for exploration and deferred option payments in the accompanying balance sheet.

h) Finland program:

The Company has an agreement with a third party pursuant to which the Company has guaranteed a minimum annual payment to the third party of $60,000 US for geological consulting services to be rendered in connection with the Finland program. In addition, the Company must pay the third party a one percent net smelter returns royalty in respect of all properties acquired in Finland by the Company as a result of exploration done under this agreement. The Company will have the right to buy out two thirds of this royalty for $2,000,000 US at any time within the first five years after commencement of commercial production of the first mine, and the remaining one third of the royalty for $1,000,000 US within the second five years.

i) Eastern Europe program:

On August 7, 1995, the Company was granted an exploration license by a foreign government. The license is for five years and allows the Company to investigate and explore within an area of interest. Under the terms of the license, the Company is required to spend $500,000 US within two years from the date of the granting of the license and, if it does not, it may maintain the license in good standing by paying to the foreign government the difference between $500,000 US and the actual amount spent by the Company in the area of interest over the two year period. The Company feels it has fulfilled this obligation having spent $914,746 Cdn. on this program to January 31, 1997.

The Company must also pay to the foreign government an annual payment equal to 2% of the cost of the field exploration expenditures incurred in the area of interest. Other terms of the license relate to the possible reimbursement by third parties of the investigation and exploration costs incurred by the Company plus interest at 20% per annum, should the Company not proceed to mining in the area of interest and should mining proceed by another party.

j) Magnesite Belt program:

In an agreement with a third party, the Company agreed to conduct an exploration program within an area of interest using the services of the third party. The third party has the right to receive a 2% net smelter return royalty on any production from property acquired under this agreement. The Company has the right, at any time within 20 years of the date of the agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The agreement terminates on August 31, 1998 unless extended by mutual consent.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

9. Related party transactions:

The Company entered into transactions with related parties as summarized below:

	1997	1996	1995
Exploration and development expenditures paid to companies over whom a director of the Company has significant influence	$ 2,605,061	$ 2,181,060	$ 492,051
Professional fees paid to a director and an officer of the Company	204,607	167,629	175,992

Included in accounts payable and accrued liabilities at January 31, 1997 is $422,233 (January 31, 1996 - $163,275) payable to related parties.

10. SUBSEQUENT EVENTS:

Subsequent to January 31, 1997, the following occurred:

a) The Company granted options to two directors to purchase 50,000 Class A shares each at a price of $20.75 per share, exercisable by February 17, 2007. The options granted are subject to the approval by the shareholders of the amended stock option plan dated November 25, 1996.

b) A letter of intent was signed pertaining to hard rock mineral rights at Salvacion, Venezuela. The letter proposes the formation of a Venezuelan company owned 90% by the Company and/or assigns and 10% by the Cooperativa La Salvacion. An application will be made by the Venezuelan company for hard rock mineral rights, which must be approved by the Venezuelan Government. The Company and/or assigns would fund 100% of the exploration and development costs for the property. The Company paid the Cooperativa La Salvacion $50,000 US for entering into the letter of intent and an additional $50,000 US will be paid when all approvals are obtained and a final agreement is signed. The Company, in turn, signed letters of intent with two other parties which gives each party the option to earn a 24.5% interest in the 90% interest to be held by the Company in the Venezuelan company and a 24.5% interest in the Paul-Mike claims currently owned 100% by the Company. Each party will contribute a total of $2,000,000 Cdn. to be used to develop both the Venezuelan property and the Paul-Mike claims. Since entering into these letters of intent, it has come to the Company's attention that the ownership of the mineral rights referred to in the letter of intent may be in dispute.

c) The Company filed a short form prospectus and signed an underwriting agreement pursuant to which 1,800,000 Class A shares were issued on April 10, 1997 at an issue price of $20.50 per share, for total proceeds of $36,900,000. The underwriters fee relative to this issue was $.9225 per share, for a total fee of $1,660,500. Pursuant to the underwriting agreement, the underwriters have an option, exercisable for a period of 60 days from April 1, 1997, to acquire a further 180,000 Class A shares at an issue price of $20.50 per share, for total proceeds of $3,690,000. The underwriters fee relative to this issue would be $.9225 per share, for a total fee of $166,050.

d) The aircraft securing long term debt outstanding at January 31, 1997 was sold and the long term debt was retired in full from the sale proceeds.

11. INCOME TAXES:

As at January 31, 1997, the Company had renounced in favor of investors, a total of $2,856,405 in income tax deductions related to the expenditure of funds on the Company's mineral claims and other interests.

As at January 31, 1997, the Company has the following amounts available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts:

Non capital losses carried forward available until the year	- 2003	$ 4,484,491
	- 2004	1,172,150
Amounts deducted for accounting purposes in excess of those deducted for tax purposes		3,348,516
		$ 9,005,157

The Company also has available capital losses of $161,657 which may be carried forward indefinitely to reduce future years' taxable capital gains.

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP):

a) Deferred income taxes:

The Financial Accounting Standards Board has issued Statement No.109, "Accounting for Income Taxes". Statement 109 has changed the method companies use to account for income taxes from the deferral method to an asset and liability method. The Company has determined that the adoption of Statement 109 for United States reporting purposes has the following cumulative effects on its deferred income tax liability, issued share capital and deficit.

	1997	1996
Increase in deferred tax liability	$ 675,749	$ 675,749
Decrease in share capital	874,059	874,059
Decrease in deficit	198,310	198,310

Any deferred tax assets initially recognized on losses would be fully offset by a valuation allowance as at each year end.

b) Underwriting costs:

The Company incurred underwriting costs amounting to $50,000 in 1985 which, under Canadian GAAP, were charged against retained earnings. Under United States GAAP such costs should be deducted from share capital.

c) Litigation settlement:

As reported in the Company's 1996 financial statements, on February 29, 1996 the Company settled litigation by the issuance of 350,000 Class A shares representing a value of $4,067,000 at the date of the settlement. As the litigation was commenced in the Company's 1994 fiscal year, under Canadian GAAP the amount of the settlement was recorded as a prior period adjustment. Under United States GAAP, the settlement costs of the litigation would have been recorded in the statement of operations and deficit for the year ended January 31, 1996.

d) Cash and cash equivalents:

Temporary investments held by the Company include primarily government and corporate bonds, term deposits and other high grade government and corporate paper all having varying terms of maturity ranging from July 1, 1998 to December 1, 1999, but all are capable of prompt liquidation. Such temporary investments are considered to be cash or cash equivalents under Canadian GAAP. Under United States GAAP, cash equivalents exclude any items whose maturities extend beyond 90 days at the time of acquisition. The effect of applying United States GAAP to cash and cash equivalents as set out in the consolidated statements of changes in financial position for the years presented is as follows:

		Years ended January 31,	
	1997	1996	1995
Cash and cash equivalents under Canadian GAAP	$ 2,821,984	$ 6,888,748	$ 11,316,487
Loan payable	77,199	907,850	–
Items with original maturities greater than 90 days	(2,629,915)	(7,692,493)	(10,993,536)
Cash and cash equivalents under United States GAAP	**$ 269,268**	**$ 104,105**	**$ 322,951**

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (continued):

d) Cash and cash equivalents (continued):

In addition, the following disclosure would be made under United States GAAP in the consolidated statements of changes in financial position for changes in temporary investments:

		Years ended January 31,	
	1997	**1996**	**1995**
Cash used in operations under Canadian GAAP	$ (4,718,854)	$ (925,322)	$ (236,985)
Gain on sale of temporary investments	(37,246)	–	–
Write down of temporary investments to market, a non-cash item	–	–	308,104
Amortization of discount, net	(185,444)	(225,211)	(185,072)
Cash used in operations under United States GAAP	**$ (4,941,544)**	**$ (1,150,533)**	**$ (113,953)**
Cash provided by financing under Canadian GAAP	$ 9,456,625	$ 1,627,177	$ 414,372
Increase (decrease) in loan payable and bank indebtedness	(830,651)	907,850	–
Cash provided by financing under United States GAAP	**$ 8,625,974**	**$ 2,535,027**	**$ 414,372**
Cash used in investing under Canadian GAAP	$ (8,804,535)	$ (5,129,594)	$ (1,530,327)
Purchases of temporary investments	–	(658,604)	(3,246,872)
Principal payments and proceeds on redemption of temporary investments	39,097	4,184,858	4,370,009
Proceeds on sale of temporary investments	5,246,171	–	–
Cash used in investing under United States GAAP	**$ (3,519,267)**	**$ (1,603,340)**	**$ (407,190)**

e) Change in non-cash operating working capital:

Under United States GAAP, the following detail would be disclosed in the consolidated statements of changes in financial position with respect to changes in non-cash operating working capital:

		Years ended January 31,	
	1997	**1996**	**1995**
Decrease (increase) in accounts receivable	$ 599,162	$ (444,515)	$ (40,020)
Increase in inventory	(23,770)	(50,443)	(57,177)
Increase in prepaid expenses	(144,890)	(11,276)	(28,129)
Increase (decrease) in accounts payable and accrued liabilities	(3,799,230)	3,977,582	490,701
Decrease in deferred revenue	–	–	(199,095)
	$ (3,368,728)	**$ 3,471,348**	**$ 166,280**

(Expressed in Canadian dollars)

Years ended January 31, 1997, 1996 and 1995

12. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (continued):

f) Temporary investments:

In accordance with the Statement of Financial Accounting Standards No.115 the Company's temporary investments would be classified as available for sale. Thus, the unrealized holding loss of $308,104 included in net loss for the year ended January 31, 1995 for Canadian GAAP would be excluded from net loss and shown as a separate component of shareholders' equity for United States GAAP.

Additionally, an unrealized holding loss of $4,845 and an unrealized holding gain of $504,355 would be recognized and shown as a separate component of shareholders' equity for the years ended January 31, 1997 and 1996, respectively, for United States GAAP which is not recognized for Canadian GAAP. The net unrealized holding gain (loss) that would be disclosed in shareholders' equity is: 1997 - $191,406; 1996 - $196,251; 1995 - $(308,104).

In addition, the following disclosure would be made for temporary investments in the consolidated balance sheets for United States GAAP:

	1997	1996
Temporary investments under Canadian GAAP	$ 2,629,915	$ 7,692,493
Unamortized discount of previous write down of temporary investments to market for Canadian GAAP	14,633	161,368
Write up of temporary investments to market for United States GAAP	191,406	196,251
Temporary investments under United States GAAP	**$ 2,835,954**	**$ 8,050,112**

g) The following table provides a reconciliation of the loss determined under Canadian GAAP with the (loss) determined under United States GAAP:

		Years ended January 31,	
	1997	1996	1995
Loss determined under Canadian GAAP	$ (1,760,193)	$ (2,061,109)	$ (649,782)
Prior period adjustment	–	(4,067,000)	–
Unrealized loss on temporary investments	–	–	308,104
Discount amortization of previous write down of temporary investments to market	(146,735)	(146,736)	–
Net loss determined under United States GAAP	**$ (1,906,928)**	**$ (6,274,845)**	**$ (341,678)**

The effects of applying United States GAAP on the assets, liabilities and shareholders' equity of the Company are summarized in note 12(a), (b), (c), (d) and (f).

h) Primary loss per share would be as follows under United States GAAP:

		Years ended January 31,	
	1997	1996	1995
Primary loss per share	$ (.07)	$ (.23)	$ (.01)

Statement

of Corporate Governance Practices

The board of directors of the Corporation believes that sound corporate governance practices are essential to the well being of the Corporation and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the corporation's corporate governance practices follows. This Statement of Corporate Governance Practices has been prepared by the Corporate Governance Committee of the board of directors and has been approved by the board of directors.

The By-Laws of The Toronto Stock Exchange require that this Statement of Corporate Governance Practices relate the corporate governance practices of the board of directors to the "Guidelines for Improved Corporate Governance" contained in the December, 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The headings which appear below attempt to address the principal matters relating to corporate governance practices discussed in the TSE Report.

In this Statement, the term "unrelated director" has the meaning given to it in the TSE Report - a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests arising from shareholding.

MANDATE OF THE BOARD

The mandate of the board is to supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation. The frequency of meetings as well as the nature of agenda items changes depending upon the state of the Corporation's affairs, on-going developments with respect to the NWT project, active and proposed exploration projects, and in light of opportunities or risks which the Corporation faces. During fiscal 1997, the board met four times.

BOARD COMPOSITION

The board of directors is composed of six members. The board of directors believes that four directors are "unrelated directors" and the remainder are "related directors", within the meaning of the TSE Report. Accordingly, the board of directors is constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report.

Mr. Charles E. Fipke
is Chair of the board of directors.

Mr. James E. Eccott
is President and Chief Executive Officer of the Corporation and serves as a director.

BOARD COMMITTEES

The board of directors has four committees: the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Environmental and Safety Committee. Set out below is a description of their mandates and activities.

Audit Committee

In April, 1996, the Audit Committee was reconstituted and is now composed entirely of unrelated directors. The committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls and the performance of the Corporation's external auditors. The committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full board of directors. The Audit Committee met four times in fiscal 1997, during which time its members were Messrs. Atkinson, Christofferson and Poling.

Compensation Committee

The Compensation Committee is composed entirely of unrelated directors and makes recommendations to the board on, among other things, the compensation of senior executives. The committee also reviews training programs and succession plans. The committee held one meeting in fiscal 1997, during which time its members were Messrs. Atkinson, Christofferson and Poling.

Corporate Governance Committee

A Corporate Governance Committee of the board was appointed in April, 1996. It is composed of two unrelated and one related directors. It is responsible for making recommendations to the full board with respect to developments in the area of corporate governance and the practices of the board. The committee is also responsible for reporting to the board with respect to appropriate candidates for nomination to the board, and for evaluating the performance of the board. The committee held one meeting in fiscal 1997, during which time its members were Messrs. Atkinson, Christofferson and MacKenzie.

Environmental and Safety Committee

An Environmental and Safety Committee of the board was appointed in April, 1996. It is composed of two unrelated and one related directors. It is responsible for reviewing environmental and safety issues related to any ongoing exploration and development work in which the company is involved. The committee held one meeting in fiscal 1997, during which time its members were Messrs. Fipke, Mackenzie and Poling.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the board, management is also required to seek board approval for any disposition or expenditure in excess of $100,000.00. Management is also required to consult with the board before entering into any venture which is outside of the Corporation's existing businesses.

BOARD PERFORMANCE

The Corporate Governance Committee will monitor and report to the board concerning the effectiveness of the board's operations.

SHAREHOLDER FEEDBACK

The Corporation encourages investor inquiries and responds promptly to all information requests. The Corporation has also retained investor relations expertise to assist it in the on-going development of this function. The Corporate Governance Committee of the board monitors the nature of the information requested by and provided to the board so that it is able to determine if the board can be more effective in identifying problems and opportunities for the Corporation.

EXPECTATIONS OF MANAGEMENT

The Board reviews, from time to time, the corporate objectives of the CEO and the projects and priorities of the Company. The Board expects management to have in place an effective system of internal financial controls and other systems to permit compliance with the Company's financial reporting and environmental stewardship responsibilities.

CORPORATE DIRECTORY

OFFICERS

James E. Eccott (3)
President, Chief Executive Officer and Director

Grant L. Miller
Chief Financial Officer and Secretary

BOARD OF DIRECTORS

Charles E. Fipke (4)
Chairman of the Board and Director

Peter Y. Atkinson (1) (2) (3)
Director

Keith A. Christofferson (1) (2)
Director

James E. Eccott (3)
President, Chief Executive Officer and Director

David W. G. Mackenzie (3) (4)
Director

Dr. George W. Poling (1) (2) (4)
Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental and Safety Committee

CORPORATE OFFICE

Dia Met Minerals Ltd.
1695 Powick Road
Kelowna, BC, Canada
V1X 4L1

Telephone (250) 861-8660
Facsimile (250) 861-3649

CORPORATE COMMUNICATIONS

1-800-844-9404
Email: corporat@diamet.com
Website: www.diamet.com

REGISTERED OFFICE

20580 - 102B Avenue
Langley, BC, Canada
V1M 3H2

LEGAL COUNSEL

Keith A. Christofferson
Barrister and Solicitor
20580 - 102B Avenue
Langley, BC, Canada
V1M 3H2

AUDITORS

KPMG
Suite 300 - 1674 Bertram Street
Kelowna, BC, Canada
V1Y 9G4

BANKERS

Royal Bank of Canada
510 Bernard Avenue
Kelowna, BC, Canada
V1Y 7N9

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
510 Burrard Street
Vancouver, BC, Canada
V6C 3B9

8th Floor - 151 Front Street
Toronto, ON, Canada
M5J 2N1

STOCK EXCHANGE LISTINGS

American Stock Exchange
Symbol DMM.A and DMM.B

Toronto Stock Exchange
Symbol DMM.A and DMM.B

Annual Meeting of Shareholders

The Annual General Meeting
of Shareholders will be held
Friday, June 27, 1997
at 10:00 a.m.
The Coast Capri Hotel
1171 Harvey Avenue
Kelowna, BC, Canada
V1Y 6E8

Printed in Canada